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AGENDA ITEM 5e

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

- I. SUBJECT:** California Employers' Retiree Benefit Trust (CERBT) Fund Update
- II. PROGRAM:** California Employers Retiree Benefit Trust (CERBT)
- III. RECOMMENDATION:** Information only
- IV. ANALYSIS:**

The CERBT added ten employers to close September 2010 with 268 contracted employers and assets of nearly \$1.47 billion dedicated to prefunding Other Post Employment Benefits (OPEB) for 188,000 active and retired members. CalPERS Board investment policy decisions expected in February will allow three asset allocation strategies to be available to employers who participate in the CERBT. Subject to Board approval, CERBT staff may be able to provide eligible CalPERS Health Plan (a.k.a. PEMHCA) employers with OPEB cost reports prepared using the Alternative Measurement Method (AMM).

Asset Allocation Strategies

In February 2011, the Investment Office will recommend asset allocation strategies to the Board Investment Committee. When the CalPERS Board approves the asset classes recommended by the Investment Committee, the CERBT will be able to offer to participating employers three asset allocation strategies, each with a different expected risk and return. A CERBT employer could adopt an asset allocation strategy at the time the employer measures and reports its OPEB costs in compliance with Governmental Accounting Standard Statement 45 (GASB 45), which occurs once every two years.

An asset allocation strategy with a lower expected investment return and risk will provide an employer with a more stable, albeit higher, annual required contribution (ARC). Employer OPEB contributions are elective, and differ in this regard from employer pension contributions. Even though a lower expected return does bring higher ARC and liabilities, some employers (for example, those with capped liabilities, or super-funded status) may prefer lower expected investment return volatility because it provides more stable budget planning conditions and funded status.

The CalPERS Board continues to establish and administer all investment strategies and activities of the CERBT. Participating employers may elect an asset allocation strategy only when they present an OPEB valuation report dated 6/30/2011 and later.

Alternative Measurement Method

Employers rely on CalPERS for analytical support and guidance in administering their benefit plans. PEMHCA employers, particularly smaller employers, have looked to CalPERS to provide OPEB plan cost reports similar to the pension plan cost reports which employers value highly.

The CalPERS Board anticipated the importance of OPEB cost reports when, in 2007, it directed staff to provide participant data extracts necessary for PEMHCA employer' OPEB cost reports (actuarial valuation and Alternative Measurement Method). CalPERS is the repository of information required to perform OPEB cost reports for PEMHCA employers (State, local public agency, and school).

Governmental Accounting Standards Board Statement 45 (GASB 45) describes an Alternative Measurement Method (AMM) which smaller employers (<100 plan members) may use to measure and report their OPEB liabilities and ARC. Plan membership is defined as the sum of active, retired, and separated/vested participants in the employer's OPEB benefit plan.

Although the AMM is a simpler method than actuarial valuation, it is more complicated than the typical public agency staff is trained to handle. Some private sector service providers offer AMM self-preparation software to public employers. The license fee usually ranges between \$1500 and \$3000.

CERBT staff has fulfilled 250+ requests from PEMHCA employers for OPEB participant data. Using the PEMHCA OPEB participant data extract, and by modifying an Alternative Method (AMM) Cost tool published by GASB, CERBT staff is able to create AMM cost reports for PEMHCA employers. More than half of all PEMHCA employers (~650) are eligible to use an AMM cost report.

If CERBT staff can show that it is useful and prudent to do so, they may ask this Committee to allow staff to provide OPEB cost reports to PEMHCA employers who request them. The employer would pay a fee to cover the preparation cost, so that the process would be self-supporting.

The charge and payment process would be the same process by which employers pay for pension cost reports such as new agency valuation reports and contract amendment cost reports. We expect to report more information to this Committee later this year.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of regular and ongoing workload of the CERBT Program.

VI. RESULTS/COSTS:

None.

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Attachment